Michigan Department of Treasury 496 (02/06)

			Procedures Re . 2 of 1968, as amended ar), as amended			
			overnment Type	·		Local Unit Name		County
	Cour	nty	☐City ☐Twp	□Village	⊠Other	Isabella County Medical Care Facili	ity	Isabella
Fis	cal Ye	ar End		Opinion Date		Date Audit Report Submitted	to State	
S	epte	mbe	r 30, 2007	February	6, 2008	March 26, 2008		
We	affirr	n tha	t:					
We	are c	ertific	ed public accountants	licensed to p	ractice in M	ichigan.		
			irm the following mate Letter (report of comr			e been disclosed in the financial statement ons).	nts, including	the notes, or in the
	YES	8	Check each applic	able box bel	ow. (See in	structions for further detail.)		
1.	X		All required compor reporting entity note			of the local unit are included in the finan nts as necessary.	icial statemen	its and/or disclosed in the
2.	X					nore of this unit's unreserved fund baland xceeded its budget for expenditures.	ces/unrestrict	ted net assets
3.	X		The local unit is in c	ompliance wit	h the Unifo	m Chart of Accounts issued by the Depa	artment of Tre	easury.
4.	X		The local unit has a	dopted a bude	get for all re	quired funds.		
5.	X		A public hearing on	the budget wa	as held in a	ccordance with State statute.		
6.	X					Finance Act, an order issued under the E and Finance Division.	Emergency Mi	unicipal Loan Act, or
7.	×		The local unit has no	ot been deling	uent in dist	ibuting tax revenues that were collected	i for another t	axing unit.
8.	×		The local unit only h	olds deposits	/investment	s that comply with statutory requirements	s.	
9.	×					expenditures that came to our attention a gan, as revised (see Appendix H of Bulle		he <i>Bulletin for</i>
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that h not been communicated, please submit a separate report under separate cover.								
11.	×		The local unit is free	of repeated o	omments fi	om previous years.		
12.	×		The audit opinion is	UNQUALIFIE	D.			
13.	×		The local unit has co accepted accounting			GASB 34 as modified by MCGAA Staten	ment #7 and o	other generally
14.	×		The board or council	approves all	invoices pri	or to payment as required by charter or s	statute.	
15.	\boxtimes		To our knowledge, b	ank reconcilia	itions that w	ere reviewed were performed timely.		
inclu	ıded	in th		t report, nor e	do they ob	ncluded) is operating within the bounda ain a stand-alone audit, please enclose		

description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification	on)			
Financial Statements	\boxtimes					
The letter of Comments and Recommendations	X					
Other (Describe)						
Certified Public Accountant (Firm Name)	<u> </u>	Telephone Number				
Page, Olson and Company, P.C., CPA's		989-773-5494	989-773-5494			
Street Address	City	State	Zip			
2865 South Lincoln Road, PO Box 368	Mt. Pleasant	Mt. Pleasant MI 48804				
Authorizing CPA Signature	Prin	ted Name	License Number			
And in the second	Bo	bbie Jo Marr, CPA, CGFM	1101026172			

MEDICAL CARE FACILITY ISABELLA COUNTY AUDITED FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

MEDICAL CARE FACILITY ISABELLA COUNTY YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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MEDICAL CARE FACILITY ISABELLA COUNTY YEARS ENDED SEPTEMBER 30, 2007 AND 2006

DEPARTMENT OF HUMAN SERVICES (DHS) BOARD

Eileen Rau Chairperson

Thompson Moffit Vice-Chairperson

Dale MacDonald Member

MEDICAL DIRECTOR Michael Gross, M.D.

ADMINISTRATOR
John P. Riley, Jr.

ERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT ON GENERAL-PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL INFORMATION

February 6, 2008

Department of Human Services Board Medical Care Facility Isabella County, Michigan

We have audited the accompanying basic financial statements of the Isabella County Medical Care Facility (the "Facility"), a component unit of Isabella County, Michigan, as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Medical Care Facility as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 8 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2008 on our consideration of Isabella County Medical Care Facility' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Department of Human Services Board Isabella County Medical Care Facility Isabella County, Michigan

Page, Olsen & Company

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Isabella County Medical Care Facility's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis, all of which are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This Management Discussion and Analysis (MD&A) of the Isabella County Medical Care Facility (Facility) provides an overview of the financial performance and statements of the Facility for the years ended September 30, 2007 and 2006. The information contained in this MD&A should be considered in conjunction with the Facility's financial statements and the accompanying notes, which immediately follow this section.

SUMMARY OF NET ASSETS

A condensed summary of the Facility's total net assets at September 30 is as follows:

		Business-type Activities			
		2007		2006	
ASSETS:					
Current and Other Assets	\$	6,527,534	\$	4,711,082	
Capital Assets - Net of Accumulated Depreciation	· —	10,004,501	_	10,310,423	
Total Assets		16,532,035		15,021,505	
LIABILITIES:					
Current Liabilities		1,080,118		1,016,473	
Long-Term Liabilities		6,886,420		7,166,814	
Total Liabilities		7,966,538		8,183,287	
NET ASSETS:					
Invested in Capital Assets - Net of Related Debt		3,166,737		3,176,141	
Restricted - Non Expendable		55,226		55,226	
Restricted - Expendable		3,254,412		2,151,519	
Unrestricted		2,089,122		1,455,332	
Total Net Assets	<u>\$</u>	8,565,497	\$	6,838,218	

The above analysis focuses on the net assets. The change in net assets of the Facility's business-type activities is discussed below. The Facility's net assets were \$8,565,497 and \$6,838,218 for the years ended September 30, 2007 and 2006. Expendable restricted net assets of \$3,254,412 and \$2,151,519 at September 2007 and 2006 are reported to show legal constraints on the funds. The non-expendable restricted net assets of \$55,226 for both years are reported to show that the funds may not be spent due to the constraints of a trust. Capital assets, net of related debt totaling \$3,166,737 and \$3,176,141 for the years ended September 30, 2007 and 2006 compare the original cost, less depreciation of the Facility's capital assets to the long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt comes due. The remaining amount of net assets of \$2,089,122 and \$1,455,332 was unrestricted at September 30, 2007 and 2006.

The unrestricted net assets on the business-type activities represents the accumulated results of all past years' operations. The operating results of the enterprise fund will have a significant impact on the change in unrestricted net assets from year to year.

SUMMARY OF ACTIVITIES

A summary of the Statement of Activities, which shows the changes in net assets for the years ended September 2007 and 2006, is as follows:

		Business-type Activities				
	·	2007	-	2006		
REVENUE						
Program Revenue:						
Charges for Services	\$	8,188,068	\$	7,261,947		
Operating Grants and Contributions		93,760		144,368		
General Revenue:						
Property Taxes		1,223,378		1,150,880		
Quality Assurance Program		329,899		447,484		
Other		291,173		156,544		
Total Revenue		10,126,278		9,161,223		
FUNCTION/PROGRAM EXPENSES						
Primary Service		7,420,113		7,098,715		
Therapy		448,147		481,893		
Barber & Beautician		10,312		10,992		
Adult Day Care		225,070		246,999		
Interest on Long Term Debt		295,357		278,733		
Total Expenses		8,398,999		8,117,332		
Increase (Decrease) in Net Assets	\$	1,727,279	<u>\$</u>	1,043,891		

The increase in net income from 2006 to 2007 is due primarily to the increase in charges for services for the increased number of residents.

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less.

	Business-type Activities				
		2007		2006	
Cash Flows From:					
Operating Activities	\$	128,480	\$	(632,962)	
Non-Capital Financing Activities		442,649		527,484	
Capital and Related Financing Activities		939,337		198,806	
Investing Activities		178,423		76,544	
Net Increase (Decrease) in Cash and Cash Equivalents		1,688,889		169,872	
Cash and Cash Equivalents October 1,		3,494,515		3,324,643	
Cash and Cash Equivalents September 30,	<u>\$</u>	5,183,404	\$	3,494,515	

The increase in cash and cash equivalents for the year ended September 30, 2007 results mainly from decreased purchases from the construction of fixed assets and increased receipts from residents.

CAPITAL ASSETS

At September 30, 2007 and 2006 the Facility had \$13,840,739 and \$13,756,215 invested in a broad range of capital assets, including buildings, and equipment. The amounts represent a net increase (including additions and disposals) of \$84,524 and \$811,743 from the prior years for the years ended September 30, 2007 and 2006.

	 9/30/07	 9/30/06
Buildings and Improvements Equipment	\$ 11,699,472 2,141,267	\$ 11,626,736 2,129,479
Total Capital Assets	13,840,739	13,756,215
Less Accumulated Depreciation	 (3,836,238)	 (3,445,792)
Net Capital Assets	\$ 10,004,501	\$ 10,310,423

Actual additions were \$84,524 and \$811,743 for the years ended September 30, 2007 and 2006 and included improvements, equipment and additional construction in progress. A capital lease/bond was entered into in 2003 to finance the construction in progress.

We present more detailed information about our capital assets in the notes to the financial statements.

DEBT

At September 30, 2007 and 2006, the Facility had \$7,216,420 and \$7,481,814, respectively, in long-term debt obligations outstanding.

	9/30/07		 9/30/06
Capital Lease/Bond Compensated Absences Payable	\$ —	6,837,764 378,656	\$ 7,134,282 347,532
Total Long-Term Debt Obligations	<u>\$</u>	7,216,420	\$ 7,481,814

We present more detailed information about our long-term obligations in the notes to the financial statements.

CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide the Facility's taxpayers, customers, investors and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administrator's office at 1222 North Drive, Mt. Pleasant, Michigan 48858.

COMPARATIVE STATEMENT OF NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Statement I

	Business-type Activ	/ities
	2007 20	06
<u>ASSETS</u>		
Current Assets		
Cash	\$ 1,660,633 \$ 1,08	33,900
Petty Cash	200	200
Accounts Receivable - Patient Accounts Net of Allowance	1,176,623 1,04	8,287
Accounts Receivable - Adult Day Care	33,958 2	2,812
Accounts Receivable - Cost Report	- 4	7,790
Property Tax Receivable		6,889
Due From County		2,674
Due From Patient Trust Fund	2,469	742
Prepaid Expenses	15,7771	7,373
Total Current Assets	3,004,963 2,30	0,667
Restricted Assets		
Cash	1,856,985 1,30	9,322
Investments		1,093
		1,000
Total Restricted Assets	3,522,571 2,410	0,415
Non-Current Assets		
Building and Equipment	13,840,739 13,756	5,215
Construction in Progress	· · · · · ·	
Less Accumulated Depreciation	(3,836,238) (3,445	5 <u>,792</u>)
Net Building and Equipment	10,004,501 10,310	,423
TOTAL ASSETS	<u>\$ 16,532,035</u>	,505
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 189,424 \$ 154	570
Accounts Payable - Maintenance of Effort	•	,579 ,288
Interest Payable	•	,200 ,171
Payroll Deductions Payable		
Salaries Payable		,529 ,380
Deferred Revenue		,500 ,526
Vested Benefits Payable, due within one year		,000
Capital Lease Payable, due within one year		
ospital couse i dyasie, ade within the year	315,000300,	,000
Total Current Liabilities	1,080,118 1,016,	473
Non-Current Liabilities		
Long-Term Vested Benefits Payable	363,656 332,	532
Capital Lease Payable (Net of Discount)	6,522,764 6,834,	
Total Non-Current Liabilities	6,886,420 7,166,	814
TOTAL LIABILITIES	7,966,538 8,183,	287
Net Assets		
Invested in Capital Assets, Net of Related Debt	2.400.707 0.470	444
Restricted-Non Expendable	3,166,737 3,176, ⁻	
Restricted-Romanie Restricted-Expendable	55,226 55,2 3,254,443 3,454,6	
Unrestricted	3,254,412 2,151,5 2,080,122 1,455,5	
	<u>2,089,122</u> 1,455,3	<u> </u>
TOTAL NET ASSETS	8,565,497 6,838,2	218
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,532,035</u>	<u>05</u>

MEDICAL CARE FACILITY ISABELLA COUNTY COMPARATIVE STATEMENT OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Statement II	Business-type Activities	Net (Expense) ting Revenue and s/ Changes in Net tions Assets	144,368 \$ (1,302,780) - 961,322 - 1,967 - (92,793)		(/1.0.17)	1,150,880	76,544 80,000 777,484	404,744	1,104,908	1,043,891	5,794,327	\$ 6,838,218
2006	senues	Operating Grants/ Contributions	\$ 144,	\$ 144.368	ĺ							
20	Program Revenues	Charges for Services	\$ 5,651,567 1,443,215 12,959 154,206	\$ 7.261.947	_							
		Expenses	\$ 7,098,715 481,893 10,992 246,999 278,733	\$ 8,117,332								
	Activities	Revenue and Changes in Net Assets	\$ (635,922) 852,203 2,663 (40,758) (295,357)	(117,171)		1,223,378 178,423	112,750 329,899	1,844,450	4 727 970		6,838,218	\$ 8,565,497
2007	Program Revenues	Operating Grants/ Contributions	\$ 93,760	\$ 93,760								
	Program	Charges for Services	\$ 6,690,431 1,300,350 12,975 184,312	\$ 8,188,068								
		Expenses	\$ 7,420,113 448,147 10,312 225,070 295,357	\$ 8,398,999								
		Functions / Programs Primary Government.	Business-type Activities: Primary Services Therapy Barber & Beautician Adult Day Care Interest on Long Term Debt	Total Governmental Activities	General Revenues:	Property Taxes, Levied for Debt Services Interest and Investment Earnings Rents	Intergovernmental Transfer	Total General Revenues	Change in Net Assets	Net Assets - Beginning of the Year	Net Accete . End of the Vice	

The accompanying notes are an integral part of these financial statements.

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Statement	Ш
--	-----------	---

	2007	2006
Operating Revenue	\$ 8,188,068	\$ 7,261,947
Operating Expenses	7,852,205	7,587,162
Operating Income (Loss) Before Building Depreciation	335,863	(325,215)
Less Depreciation - Building	(251,437)	(251,437)
Operating Income (Loss)	84,426	(576,652)
Non-Operating Revenue (Expenses)	1,844,450	1,754,908
Other Financing Sources	(201,597)	(134,365)
Net Income (Loss)	1,727,279	1,043,891
Retained Earnings - October 1	6,838,218	5,794,327
Retained Earnings - September 30	<u>\$ 8,565,497</u>	6,838,218

COMPARATIVE STATEMENT OF CASH FLOWS - ENTERPRISE FUND FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

		Statement IV
	2007	2006
Cash Flows from Operating Activities		
Receipts from Customers and Others		\$ 6,958,229
Payments to Suppliers	(4,070,918)	(3,935,840)
Payments to Employees	(3,855,767)	(3,655,351)
Net Cash Provided (Used) by Operating Activities	128,480	(632,962)
Cash Flows from Non-Capital Financing Activities		
Rental Receipts	112,750	80,000
Quality Assistance Assurance Program Revenue	329,899	447,484
Net Cash Provided (Used) by Non-Capital Financing Activities	442,649	527,484
Cash Flows from Capital and Related Financing Activities		
Property Tax Collections	1,226,620	1,150,880
Principal Payments on Capital Debt	(300,000)	(285,000)
Capital Contributions	93,760	144,368
Acquisition and Construction of Capital Assets	(81,043)	(811,442)
Net Cash Provided (Used) by Capital and Related Financing Activities	939,337	198,806
Cash Flows from Investing Activities		
Interest Received	178,423	76,544
Net Increase (Decrease) in Cash and Cash Equivalents	1,688,889	169,872
Cash and Cash Equivalents at October 1,	3,494,515	3,324,643
Cash and Cash Equivalents at September 30,	<u>\$ 5,183,404</u> \$	3,494,515
Reconciliation of Operating Income to Net Cash Provided		
(Used) by Operating Activities:		
Operating Income	¢ /210.021\ ¢	/OEE 20E\
•	\$ (210,931) \$, , ,
Depreciation	390,447	388,714
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable - Patient Accounts	(128,336)	(208,376)
(Increase) Decrease in Accounts Receivable - Adult Day Care	(11,146)	(7,362)
(Increase) Decrease in Accounts Receivable - Cost Report	47,790	(47,790)
(Increase) Decrease in Prepaid Expenses	1,596	(4,132)
(Increase) Decrease in Due from County	(38,982)	(22,674)
(Increase) Decrease in Due from Patient Trust	(1,727)	(130)
Increase (Decrease) in Accounts Payable	34,845	(82,005)
Increase (Decrease) in Accounts Payable - MOE	(1,046)	25,839
Increase (Decrease) in Interest Payable	(3,750)	123,171
Increase (Decrease) in Salaries Payable	2,292	2,272
Increase (Decrease) in Payroll Deductions Payable	18.402	25,382
Increase (Decrease) in Vested Benefits Payable	31,124	42,769
Increase (Decrease) in Deferred Revenue	(2,098)	(13,254)
Net Cash Provided (Used) by Operations	\$ 128,480 \$	(632,961)
Reconciliation of Cash and Cash Equivalents per Statement of		
Net Assets:		
Cash-Current	£ 4.000.000 \$	1 000 000
Petty Cash		1,083,900
Restricted Cash	200	200
Restricted Investments		1,309,322 <u>1,101,093</u>
Total Cash and Cash Equivalents	\$ <u>5,183,404</u> \$	3,494,515

MEDICAL CARE FACILITY ISABELLA COUNTY STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Statement V

400570	2007 2006
ASSETS Cash	<u>\$ 2,686</u> <u>\$ 1,375</u>
LIABILITIES Due to Patients Due to General Fund	\$ 217 \$ 633 2,469 742
Total Liabilities	<u>\$ 2,686</u> \$ 1,37 <u>5</u>

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Isabella County Medical Care Facility is organized pursuant to the Michigan Social Welfare Act, Act 280 of 1939. Section 58 of this Act authorizes the County Department of Human Services Board, with the approval of the Board of Commissioners, to operate a county medical care facility.

The fund and agency accounts related to the operation of the Facility are appropriately included as a component unit of Isabella County, Michigan, and are an integral part of the County's reporting entity in accordance with the requirements of Statement 14 of the Governmental Accounting Standard Board (GASB), *The Financial Reporting Entity*. The basic financial statements of the Facility are incorporated in the County's Comprehensive Financial Report as an enterprise fund activity. Complete financial statements of Isabella County, Michigan, the primary government of the facility, can be obtained directly from the County's administrative office at 200 North Main Street, Mt. Pleasant, Michigan 48858.

B. SCOPE OF SERVICES

Through the provisions of the Michigan Social Welfare Act, Act 280 of 1939, Section 58, authorization is given to the County Department of Human Services Board, with the approval of the Board of Commissioners, "to supervise and be responsible for the operation of a county medical care facility...such facility shall provide a program of planned and continuing medical treatment and nursing care under the general direction and supervision of a licensed physician employed full or part-time...". The Isabella County Medical Care Facility is licensed through the Michigan Department of Public Health as a 100 bed skilled nursing facility (SNF).

The Facility accepts many inpatients upon discharge from the adjacent and attached Hospital. As a result, the Facility provides a higher intensity of services due to the acute medical needs of such patients.

Mid-year of 1999, the Facility expanded their services to include an Adult Day Care. The Adult Day Care offers families in the community an opportunity for daytime respite in the care of those individuals with Alzheimer's or similar conditions requiring 24-hour supervision.

Management believes the scope of services provided by the Facility are unusual when compared to other skilled care nursing facilities. The range and volume of specialized services to the community's public and private entities are beyond the standard operations of a conventional Medical Care Facility. The specialized services offered by the Facility are an eminent benefit to the community.

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental-activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Facility's government-wide activities are considered to be business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Normally, separate financial statements would be provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds would be reported as separate columns in the fund financial statements. The Facility is made up of only one fund. This fund is an enterprise fund - proprietary fund type, and as such, all fund statements presented represent the Facility as a whole.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Isabella County Medical Care Facility are charges to patients for services. Patient service revenue is recorded at established gross rates and is reduced by third party contractual allowances. The third party contractual allowances reflect the difference between gross charges and cost for patients reimbursed on a cost basis (Medicare/Medicaid).

Reimbursement principles for the Medicare/Medicaid programs are subject to judgmental interpretation and to audits which could result in subsequent adjustments to revenue. Management of the Isabella County Medical Care Facility believes that it has properly applied reimbursement principles in the determination of revenue from the programs. Any differences between estimated provisions and final settlements with these programs are reported as non-operating revenue or expenses in the year final settlement occurs.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Facility.

The Facility reports the following major proprietary fund:

A single enterprise fund accounts for the activities of the Facility.

Additionally, the Facility has fiduciary responsibility for the following agency fund:

The Patient Fund is an agency fund in which patients deposit funds for personal and ancillary expenses.

E. THIRD PARTY REIMBURSEMENT

A substantial portion of the Isabella County Medical Care Facility's revenue is derived from services to patients under Medicare and Medicaid insurance programs whose payment principles were both based upon paying the lower of program costs, subject to limitations, or program charges, or a predetermined reimbursement amount per case. The program costs and the predetermined reimbursement amounts are determined by contractual agreement and by regulations promulgated under the Social Security Act and by the Michigan Department of Human Services. Medicare has established a listing of reimbursement amounts per type of patient cared for based on the evaluated level of care needed. Provision is made in the financial statements to reflect the amounts earned and due from third party payers based upon these principles.

As a result of participation in these programs, the financial condition of the Medical Care Facility is dependent upon the third parties' ability to reimburse the Facility.

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CASH AND INVESTMENTS

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less when acquired. Investments are stated at fair value.

G. RECEIVABLES AND PAYABLES

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

The allowance for uncollectible amounts for the trade receivables is based on a weighted average of outpatient receivables with a percentage allocated for prior and current years along with a flat amount determined by management for inpatient receivables.

H. INVENTORIES AND PREPAID ITEMS

Inventories of consumable medical supplies have not been recorded as assets in the financial statements. The costs of such inventory items are recorded as expenditures at the time the items are purchased. The quantities of these inventories are considered to be stable in nature from year to year and not prone to materially varying fluctuations nor are they material in total.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. RESTRICTED ASSETS

Certain restricted Cash and Investment accounts have been established. The Restricted Asset for Vested Benefits is recorded as a separate investment account set aside to fund employee vested sick and vacation benefits and the net assets are restricted in the amount of \$935,942. The Funded Depreciation Restricted Asset is recorded as a separate investment account for the assets earmarked for future capital outlay expenses and the net assets are restricted in the amount of \$1,665,586. The Restricted Assets for Capital Projects is recorded in the project accounts in the amount of \$434,906.

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. RESTRICTED ASSETS (Continued)

The Drayton and Minnie Miley Trust was established by Inez Vetter in August 1973, with a deposit to the Trust of assets in the approximate amount of \$61,362. The Trustees of the Drayton and Minnie Miley Trust are the Medical Care Facility's Administrator, Medical Director, and Director of Nursing. The Trustees may authorize the Trust monies to be used for the purchase of equipment to be used in conjunction with patient care. The terms of the Trust authorize the Trustees to expend any and all income as may be accumulated through the date of equipment purchase but the corpus of the Trust may not be invated in an amount in excess of 5% of the presently existing corpus with any single purchase, or in an amount in excess of 10% of said corpus for all purchases so made during any one calendar year. As of September 30, 2007 the Trust assets consist of \$61,362 of corpus amount and \$35,295 of unexpended accumulated income. The entire amount of \$96,657 is recorded as restricted net assets of which \$41,431 is expendable and \$55,226 is non-expendable.

The Isabella County Medical Care Facility Building, Equipment and Patient Care Trust was established by the Isabella County Social Services Board in 1974 to receive donations made by various individuals and organizations to the Isabella County Medical Care Facility. All donations are deposited to the Trust and the assets are used for equipment purchases. As of September 30, 2007 the Trust assets consist of \$176,547 and the entire amount is recorded as expendable restricted net assets.

A reconciliation of restricted net assets is as follows:

	2007	2006
Restricted for:		
Vested Employee Sick and Vacation Leave	\$ 935,942	\$ 512,243
Funding of Depreciation	1,665,586	1,101,093
Capital Projects	434,906	336,447
Drayton and Minnie Miley Trust	96,657	92,994
Patient Equipment Trust	176,547	163,968
Total Restricted Net Assets	\$3,309,638	\$ 2,206,745
	2007	2006
Restricted Net Assets per Statement I:	- "	,
Expendable	\$3,254,412	\$ 2,151,519
Non-Expendable	55,226	55,226
Total Restricted Net Assets	\$3,309,638	\$ 2,206,745

Statement VI

Estimated

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Capital assets, which include buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the facility as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The facility does not have infrastructure type assets.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following useful lives:

	Lotimatog
	Useful Life in
<u>Asset</u>	Years
Building and Improvements	5-50
Equipment	5-20

K. COMPENSATED ABSENCES

Using the criteria established in Governmental Accounting Standards Board (GASB) Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place. Criteria for recognition of these two basic types of compensated absences are as follows:

- 1) Vacation and Similar Leave Absences should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
 - The employees' rights to receive compensation are attributable to services already rendered.
 - b) It is probable that the employer will compensate the employees for such benefits through paid time off or some other means, such as cash payments at termination or retirement.
- 2) Sick and Similar Leave Absences should be accrued using one of the following termination approaches:
 - a) Under the Termination Payment Method, a liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement.
 - b) Under the Vesting Method, a liability should be based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments.

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. COMPENSATED ABSENCES (Continued)

The Medical Care Facility employee agreements state that accumulated employee sick leave benefits will be paid upon death, retirement, or severance of employment in accordance with certain stated percentages based on length of employment and that accumulated employee vacation pay will also be paid. Accordingly, unused employee sick leave benefits accrued using the Vesting Method and accumulated vacation benefits meet the definition of "compensated absences" and represent a future obligation of the Medical Care Facility as of September 30, 2007.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Capital lease/bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Capital lease/bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

M. COMPARATIVE DATA/RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A budget was adopted by the Department of Human Services Board for the Isabella County Medical Care Facility. The budget for an Enterprise Fund is an Informational Summary. An Informational Summary is not required to be presented in the financial statements for an Enterprise Fund, thus no comparison to the budget has been presented.

NOTE 3 - CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Facility is authorized to invest any of its funds in one (1) or more of the following:

1. Bond, securities, and other obligations of the United States or any agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

Statement VI

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- 2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan associations, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act. No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- 3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- 4. The United States government of federal agency obligations repurchase agreements.
- 5. Bankers acceptances of United States banks.
- 6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

At year end, the carrying amount of the Medical Care Facility's cash and investments was comprised of the following:

	2007			
	Business-	Fiduciary	Total Primary	
	Туре	Funds	Government	
Cash on Hand	\$ 200	\$ 156	\$ 356	
Deposits with Financial Institutions	284,193	2,469	286,662	
Deposits with County Treasurer	3,233,425	-	3,233,425	
Investments Held by County Treasurer	1,665,586		1,665,586	
Total Cash and Investments	\$ 5,183,404	\$ 2,625	\$ 5,186,029	
		2006		
	Business-	Fiduciary	Total Primary	
	Type	Funds	Government	
Cash on Hand	\$ 200	\$ 633	\$ 833	
Deposits with Financial Institutions	272,160	742	272,902	
Deposits with County Treasurer	2,121,062	-	2,121,062	
Investments Held by County Treasurer	1,101,093		1,101,093	
Total Cash and Investments	\$ 3,494,515	\$ 1.375	\$ 3,495,890	

MEDICAL CARE FACILITY ISABELLA COUNTY NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

Statement VI

NOTE 3 -CASH AND INVESTMENTS (CONTINUED)

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. As of September 30, 2007 and 2006, Federal Deposit Insurance Corporation (FDIC) coverage of Facility deposits were as follows:

	2007			
	Insured Uninsured Total			
Carrying Amount	\$ 171,696 \$5,014,333 \$ 5,186,029			
Bank Balances	112,155 5,112,858 5,225,013			
	2006			
	Insured Uninsured Total			
Carrying Amount	\$ 111,795 \$3,383,262 \$ 3,495,057			
Bank Balances	200,000 3,455,723 3,655,723			

The actual bank balance of Cash and Investments held in the County Treasurer's name for the facility is insured only to the extent that some or all of the County's available insurance coverages could be allocated to these specific accounts. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007 and 2006, the Facility did not have any investments that would be subject to rating.

Interest Rate Risk

The Facility will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Facility's cash requirements.

Concentration of Credit Risk

The Facility will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Facility will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Facility will do business in accordance with Board approved policy.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

Statement VI

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable - Patient Accounts consist of the following:

	2007	2006
Medicare	\$ 497,295	\$ 385,973
Medicaid	337,120	298,022
Private/Other	360,208	382,292
	1,194,623	1,066,287
Less Estimated Uncollectibles	(18,000)	(18,000)
Net Patient Accounts Receivable	\$ 1,176,623	\$1,048,287

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Facility's business-type activities was as follows:

	2007			
	Beginning			Ending
	Balance			Balance
	10/01/06	Additions	Deletions	9/30/07
Capital Assets Not Being Depreciated:				
Construction in Progress	\$.	- \$.	- \$	- \$ -
Capital Assets Being Depreciated:				
Building and Improvements	11,626,736	72,736	_	11,699,472
Equipment				, ,
Administration	679,353	-	-	679,353
Maintenance	43,642	-	-	43,642
Laundry	4,726	-	-	4,726
Housekeeping	31,544	-	-	31,544
Nursing	930,161	11,788	-	941,949
Physical Therapy	273,252	-	-	273,252
Activities	19,591	-	-	19,591
Occupational Therapy	12,291	-	-	12,291
Adult Day Care	59,803	-	-	59,803
Child Care	29,679	-	-	29,679
Beauty Shop	695	-	-	695
Other	44,742			44,742
Total Capital Assets Being Depreciated	13,756,215	84,524	-	13,840,739
Accumulated Depreciation				
Building and Improvements	(2,059,532)	(261,573)	_	(2,321,105)
Equipment	(1,386,260)	(128,873)	-	(1,515,133)
Total Accumulated Depreciation	(3,445,792)	(390,446)	•	(3,836,238)
Net Capital Assets Being Depreciated	10,310,423	(305,922)		10,004,501
Net Capital Assets	\$10,310,423	\$ (305,922)	<u>\$</u>	<u>\$ 10,004,501</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Statement VI

	2006			
	Beginning			Ending
	Balance			Balance
	10/01/05	Additions	Deletions	9/30/06
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 2,521,970	\$ 667,096	\$3,189,066	3 \$ -
Capital Assets Being Depreciated:				
Building and Improvements Equipment	8,437,670	3,189,066	-	11,626,736
Administration	656,874	22,479	-	679,353
Maintenance	43,642	-		43,642
Laundry	4,726	-	-	4,726
Housekeeping	31,544	-	-	31,544
Nursing	837,672	92,489	-	930,161
Physical Therapy	273,252	-	-	273,252
Activities	19,591	-	-	19,591
Occupational Therapy	12,291	-	-	12,291
Adult Day Care	59,803	-	-	59,803
Child Care	-	29,679	-	29,679
Beauty Shop	695	-	-	695
Other	44,742			44,742
Total Capital Assets Being Depreciated	10,422,502	3,333,713	-	13,756,215
Accumulated Depreciation:				
Building and Improvements	(1,808,094)	(251,438)	_	(2,059,532)
Equipment	(1,248,983)	(137,277)	-	(1,386,260)
Total Accumulated Depreciation	(3,057,077)	(388,715)		(3,445,792)
Net Capital Assets Being Depreciated	7,365,425	2,944,998	<u> </u>	10,310,423
Net Capital Assets	\$ 9,887,395	\$ 3,612,094	\$3,189,066	\$ 10,310,423
Depreciation expense was charged to statements as follows:	activities of the F	acility and repo	orted on the g	overnment-wide
			2007	2006
Business-type Activities:				
Primary Services			365,596	362,504
Therapy			14,710	16,047
Barber & Beautician			-	23
Adult Day Care			10,140	10,140
Total Business-type Activities			\$ 390,446	\$ 388,714

A donation of land was received at the inception of the Facility. The value of the land is not recorded since an amount cannot be reasonably determined.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

Statement VI

NOTE 6 - DEFERRED REVENUE

Below is a breakdown of the Deferred Revenue Balance:

		2007	 2006
Patient Pay Prebills	\$	65,092	\$ 57,429
Private Pay Prebills		40,176	80,600
Transfers from Saginaw Chippewa Indian Tribe for which			
Corresponding Expenditures have not been made	<u></u>	123,160	 92,497
	<u>\$</u>	228,428	\$ 230,526

The entire deferred revenue balance is available but not yet earned.

NOTE 7 - LONG-TERM OBLIGATIONS

The Facility entered into a long-term capital lease/bond for the construction project with the Isabella County Building Authority. The Facility's other long-term obligations included compensated absences.

The long-term obligation activity can be summarized as follows:

			2007		
	Balance 10/1/06	Additions	Payments/ Reductions	Balance 9/30/07	Amount Due Within One Year
Capital Lease/Bond	\$ 7,190,000	\$ -	\$ 300,000	\$6,890,000	\$ 315,000
Less deferred amounts:					
For Issuance Discounts	(55,718)		(3,482)	(52,236)	
Total Capital Lease	7,134,282	-	296,518	6,837,764	
Compensated Absences	347,532	322,908	291,784	378,656	15,000
Total Business-type Activity Long-Term Liabilities	\$ 7,481,814	\$ 322,908	\$ 588,302	\$7,216,420	

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006

NOTE 7 - LONG-TERM OBLIGATIONS (CONTINUED)

Statement VI

	2006				
	Balance 10/1/05			Amount Due Within One Year	
Capital Lease/Bond	\$ 7,475,000	\$ -	\$ 285,000	\$7,190,000	\$ 300,000
Less deferred amounts:					
Discounts	(59,200)	-	(3,482)	(55,718)	
Total Capital Lease	7,415,800	-	281,518	7,134,282	
Compensated Absences	304,763	315,349	272,580	347,532	15,000
Total Business-type Activity Long-Term Liabilities	\$ 7,720,563	<u>\$ 315,349</u>	\$ 554,098	<u>\$7,481,814</u>	

Capital Lease

Issued: December 15, 2002 Original Amount: \$8,000,000

Interest: 3.00 - 4.60% (due May 1 and November 1)

Principal Due: May 1,

	Fiscal Year Ended	Interest	Principal
	2008	286,610	315,000
	2009	276,373	335,000
	2010	264,647	350,000
	2011	251,522	370,000
	2012	237,185	385,000
	2013-2017	840,058	2,255,000
	2018-2022	406,795	2,880,000
Total Capital Lease		\$ 2,563,190	\$6,890,000
Compensated Absences Amount estimated at Septe	ember 30, 2007		\$ 378,656
· ···· · · · · · · · · · · · · · · · ·			4 0.0,000

Statement VI

NOTE 7 - LONG-TERM OBLIGATIONS (CONTINUED)

Interest

The facility capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. There was no interest cost capitalized in 2007 and \$152,080 in 2006.

The facility also charged interest cost to operations in the amount of \$295,357 and \$278,733 in 2007 and 2006, respectively.

NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES

As explained in the Summary of Significant Accounting Policies, the third party reimbursement process results in amounts due to/receivable from the third parties as a result of the cost settlement procedures.

MEDICARE COST REPORTS

Medicare payment methods changed effective January 1, 1999 for the Facility wherein fixed rates per diagnosis for all services to Medicare patients now apply. The new payment method results in fixed amounts which are not subject to adjustment based on actual costs. An estimate of a receivable or payable based on cost reports is thus no longer applicable. This may be subject to change as a result of further medical record audits.

MEDICAID COST REPORTS

The estimated contractual allowance based on cost report filing results in no receivable or payable. Actual costs approximated expected reimbursement. This may be subject to adjustments as a result of future intermediary field audit procedures.

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID

In 1980, the State enacted Public Act 391 which requires counties to pay "Maintenance of Effort" payments to the State. According to the Act's statutory formula, a Maintenance of Effort rate per patient day is established for patients at each medical care facility for each year. This rate is then multiplied by the number of days of nursing home services received by each Medicaid patient in the facility.

Based on their income levels, many Medicaid patients are required to pay a certain amount of each month's care in order to make themselves eligible for the Medicaid program. This results in the patients paying a portion of the month's care from their own resources, with the balance of the month's care then paid through the Medicaid program.

The portion of care paid for through the patient's own funds has been labeled by the State as "Institutional Code" costs. The State Department of Human Services has determined that, notwithstanding the fact that the patients themselves pay these "Institutional Code" payments rather than the State, days for which care is provided through these funds are to be included in calculating the Maintenance of Effort obligations and counties must pay to the State. The result is that counties reimburse the State for a portion of the funds that the State pays for Medicaid patients at medical care facilities and also for a portion of the funds that are not paid by the State but rather are paid by the patients themselves.

Statement VI

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID (CONTINUED)

The total Maintenance of Effort (MOE) expenses recognized by Isabella County Medical Care Facility is as follows:

	2007	2006		
MOE Paid in Cash During Year	\$ 232,832 \$	165,788		
Less MOE paid in Current Year for days recorded as Accounts Payable in Prior Year	(40,288)	(14,449)		
Plus MOE incurred for days recorded as Accounts Payable as of September 30	39,242	40,288		
Total MOE Expense Recognized	\$ 231,786 \$	191,627		

The effective MOE rate per day for 2007 and 2006 was \$9.24 and \$9.18, respectively, per patient day.

NOTE 10 - SHARED SERVICES FROM CENTRAL MICHIGAN COMMUNITY HOSPITAL

The Medical Care Facility is located adjacent to the unrelated Central Michigan Community Hospital (CMCH). The Facility shares various services with CMCH. The Facility receives dietary service, steam and electricity, and miscellaneous other services from CMCH.

Pursuant to an agreement approved in 2003, the Facility is billed for various services received from CMCH at cost.

Amounts based on the agreement are billed by each party to the other on a monthly basis with an annual reconciliation and adjustment annually. Amounts receivable or payable as a result of the annual settlement/reconciliation have been received or paid through September 30, 2007.

NOTE 11 - MICHIGAN MUNICIPAL EMPLOYEE RETIREMENT SYSTEM

The Isabella County Medical Care Facility participates with Isabella County in the Michigan Municipal Employees Retirement System. The retirement expenditure for 2007 and 2006 totaled \$323,744 and \$300,092 respectively. Payroll amounts and related disclosures are made in Isabella County's financial statements since individual units data is not available.

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS

Isabella County has established an employee health benefits Self-Insurance Plan in which the Medical Care Facility participates as an employer group.

The Plan is administered under contractual agreement by Blue Cross and Blue Shield of Michigan (BCBSM). The agreement includes a provision for co-insurance whereby the County is responsible for claims incurred up to an agreed-upon ceiling but is insured against further loss by BCBSM. In order to provide for the co-insurance, the County pays a "stop-loss" premium. During 2007 and 2006, the participating employer groups were insured against losses greater than \$50,000 per occurrence, respectively. There is no coverage for aggregate losses under this arrangement. The co-insurance arrangements will be re-negotiated annually with BCBSM.

Statement VI

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS (CONTINUED)

Isabella County is responsible for collecting the premiums from the participating employer groups and for paying claim settlements, an administrative fee, and the "stop-loss" co-insurance premiums.

In 2007 and 2006, the Medical Care Facility paid premiums to Isabella County for employee health benefit coverage. The expense for employee health benefits incurred in 2007 and 2006 by the Medical Care Facility was \$254,887 and \$212,536.

NOTE 13 - QUALITY ASSURANCE PROGRAM

The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. The Facility received \$703,797 and \$781,732 in payments during the years ended September 30, 2007 and 2006. The Facility was assessed a "provider tax" totaling \$373,898 and \$334,248 during the years ended September 30, 2007 and 2006. This provider tax is based on the number of non-Medicare days of service provided during the year. The transactions related to this program are recorded in Non-Operating Revenue.

NOTE 14 - CONTINGENCIES

Grants

Isabella County Medical Care Facility receives financial assistance from local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and can be subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the Enterprise Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Isabella County Medical Care Facility at September 30, 2007 and 2006.

NOTE 15 - RELATED PARTY TRANSACTIONS

Isabella County Building Authority entered into a contract with Block Electric, whose owner is a direct relative of a member of the Isabella County Medical Care Facility's management, to provide services for the construction project at the Medical Care Facility. The Isabella County Building Authority has control of the project and the Medical Care Faculty has entered into a capital lease with the Building Authority. For the year ended September 30, 2007, due to the completion of the construction project in the year ended September 30, 2006 there were no amounts paid by the Isabella County Building Authority to Block Electric for the Medical Care Facility construction project. For the year ended September 30, 2006 \$116,265 was paid. The Medical Care Facility also used Block Electric's services through out the year and as such was paid from the Facility's general operating account. The amounts paid from the Facility's general operating account were immaterial.

OTHER SUPPLEMENTAL INFORMATION

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

S	cl	1e	d	U	le	1

OPERATING REVENUE	2007	2006
Innationt Deviling Complete		
Inpatient Routine Services		
Medicare \$	1,069,928	\$ 1,507,707
	5,371,341	4,081,058
Blue Cross	64,080	67,300
Private Pay	877,565	637,044
	0111000	001,044
Total Inpatient Routine Services	7,382,914	6,293,109
Other Inpatient		
Drugs	253,886	307,033
Supplies	169,166	159,489
Oxygen	10,388	5,040
Physical Therapy	667,750	729,650
Occupational Therapy	499,550	563,450
Speech Therapy	133,050	150,115
Ancillary Services	17,461	100,110
Medicare Ancillary Services	17,401	-
Lab	40.669	CO 040
X-Ray	49,668	69,010
Nuclear	12,203	17,575
EKG	755	1,474
	1,041	4,789
Total Other Inpatient Services	,814,918	2,007,625
Total Inpatient Services 9,	,197,832	8,300,734
Outpatient Services		
A dudu D	10/ 212	154 206
	184,312	154,206
Total Outpatient Services	184,312	154,206
Total Patient Services Revenue 9,3	382,144	8,454,940
Contractual Allowances - Medicare/Medicaid (1,7	177,406)	(1,251,840)
Contractual Allowances - INS/PP	(29,645)	45,888
Net Patient Service Revenue 8,1	175,093	7,248,988
Charges for Comission and Ottom		
Charges for Services and Other		
Barber and Beautician Services	12,975	12,959
Total Charges for Services and Other	12,975	12,959
TOTAL OPERATING REVENUE 8,1	88,068	7,261,947

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Schedule 1

		2007		2006	
OPERATING EXPENSES					
Administrative and General					
Salaries	\$	340,912	\$	330,143	
Retirement	·	37,702	·	15,479	
Social Security		27,678		21,580	
Hospitalization Insurance		29,802		21,195	
Workers' Compensation Insurance		2,917		3,596	
Life and Disability Insurance		1,868		1,017	
Office Supplies		23,485		19,707	
Printing and Binding		· -		1,913	
Postage		2,764		3,040	
Memberships and Subscriptions		5,164		4,974	
Bank Fees		265		310	
Contractual Services					
Legal		11,763		1,709	
Audit and Other		20,865		16,863	
Other		7,469		14,681	
Consultants		23,805		16,093	
Communications - Telephone		21,284		22,418	
Cable TV		5,361		5,163	
Travel		2,547		4,784	
Advertising		482		507	
Public Relations		1,590		1,662	
Insurance and Bonds		52,774		57,655	
Office Equipment Repairs and Maintenance		4,376		359	
Depreciation Expense		46,389		42,874	
Total Administrative and General		671,262		607,722	

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Schedule 1

		2007	 2006
OPERATING EXPENSES (CONTINUED)			
Plant Operation and Maintenance			
Salaries	\$	135,647	\$ 137,827
Retirement		12,391	12,887
Social Security		10,184	10,227
Hospitalization Insurance		8,930	8,045
Workers' Compensation Insurance		5,565	8,540
Life and Disability Insurance		425	394
Maintenance Supplies		18,796	15,624
Gas, Oil, and Grease		20	-
Printing and Binding		-	510
Grounds Care and Maintenance		17,657	9,692
Elevator Maintenance		22,695	26,821
Contracted Services		7,042	4,057
Travel		584	-
Utilities		149,349	160,551
Building Repairs and Maintenance		3,488	7,806
Equipment Repairs and Maintenance		12,634	31,903
Depreciation Expense		8,482	 8,659
Total Plant Operation and Maintenance		413,889	443,543
Laundry			
Clothing and Bedding		11,940	4,630
Laundry Supplies		2,496	2,209
Contractual Services		81,423	61,870
Depreciation Expense		58	58
Equipment and Repairs Maintenance		258	
Total Laundry		96,175	68,767
Housekeeping			
Salaries		183,299	177,162
Retirement		10,037	10,051
Social Security		13,315	12,674
Hospitalization Insurance		18,622	14,248
Workers' Compensation Insurance		5,565	8,540
Health Services		-	321
Life and Disability Insurance		255	237
Janitorial Supplies		38,987	43,053
Equipment and Repairs Maintenance		-	521
Advertising		230	79
Total Housekeeping	:	270,310	266,886

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Schedule 1

		2007		2006
OPERATING EXPENSES (CONTINUED)				
Dietary	Φ.	00.440	Φ.	50.000
Food Kitchen Supplies	\$	62,116	\$	56,220
Kitchen Supplies Contractual Services		646		958
Contractual Services - Dietician Services		676,328		645,449
Contracted Cel vices- Dietician Cel vices		59,959	_	59,406
Total Dietary		799,049		762,033
Pharmacy				
Prescription and OTC Drugs		215,350		266,740
Stock Drugs		20,931		13,564
Supplies		79		26
Contractual Services		4,483		3,115
Equipment		5,464		1,625
Total Pharmacy		246,307		285,070
Nursing Services				
Salaries	2	2,892,246	:	2,729,141
Retirement		243,278		239,005
Social Security		210,338		198,335
Hospitalization Insurance		165,938		144,518
Workers' Compensation Insurance		101,929		156,413
Health Services		5,507		5,783
Life and Disability Insurance		4,586		4,258
Medical Supplies		120,833		45,379
Other Supplies		38,708		94,479
Diapers and Pads		52,565		38,458
Printing and Binding		783		801
Memberships and Subscriptions		1,317		1,069
Contractual Services				
Medical Waste Disposal		4,324		3,540
Lab/X-Ray		84,518		118,999
Medical Director		19,593		19,649
Physician Services		48,000		48,000
Other		2,145		-
Travel		2,369		674
Advertising		726		490
Equipment Repairs and Maintenance		48,017		21,553
Employee Training and Improvement		9,180		4,641
Patient Transportation		-		3,971
Depreciation Expense		53,805		55,835
Miscellaneous		106		239
Total Nursing Services	4,	110,811	3,	935,230

MEDICAL CARE FACILITY ISABELLA COUNTY

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Schedule 1

OPERATING EXPENSES (CONTINUED)	2007	- –	2006
Physical Therapy			
Supplies	\$ 683	\$	184
Printing and Binding	ψ 900	, ф	51
Contractual Services	•	•	51
Outside Services	223,818	i.	239,139
Depreciation Expense	13,498		14,834
		. —	17,007
Total Physical Therapy	237,999		254,208
Activity Department			
Salaries	118,943		103,610
Retirement	12,276		12,021
Social Security	8,274		7,258
Hospitalization Insurance	16,962		12,891
Workers' Compensation Insurance	293		450
Life and Disability Insurance	340		315
Supplies	6,584		4,751
Memberships and Subscriptions	621		1,653
Printing and Binding	25		81
Depreciation Expense	2,289		2,304
Travel	1,294		1,100
Eden Committee	3,263		2,167
Total Activity Department	171,164		148,601
Occupational Therapy			
Contractual Services	164,550		184,857
Depreciation Expense	1,213		1,213
Total Occupational Therapy	165,763		186,070
Speech Therapy			
Contractual Services	44,355		41,432
Supplies	30		183
Total Speech Therapy	44,385		41,615

MEDICAL CARE FACILITY ISABELLA COUNTY

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Schedule 1

	2007	2006
OPERATING EXPENSES (CONTINUED)		
Barber and Beautician		
Workers' Compensation Insurance	\$ 293	\$ 450
Supplies	270	648
Contracted Services	9,749	9,871
Depreciation Expense		23
Total Barber and Beautician	10,312	10,992
Social Services		,
Salaries	117,699	108,237
Social Security	17,355	17,472
Hospitalization Insurance	4,846	4,459
Workers' Compensation Insurance	293	449
Life and Disability Insurance	595	552
Outside Services	-	28
Supplies	554	447
Employee Training and Improvement	175	20
Total Social Services	141,517	131,664
Adult Day Care		
Salaries	100,437	114,272
Retirement	8,060	10,649
Social Security	2,698	8,130
Hospitalization Insurance	9,787	7,180
Workers' Compensation Insurance	586	7,100 754
Life and Disability Insurance	360	301
Supplies	2,714	3,437
Printing and Binding	91	354
Raw Food	1,639	1,882
Client Meals	6,897	6,813
Memberships and Subscriptions	243	285
Communications - Telephone	148	444
Travel	1,844	1,777
Transportation	6,878	8,032
Advertising	119	299
Equipment Repairs and Maintenance	429	299
Rental - Building	72,000	72,250
Depreciation Expense	10,140	10,140
Total Adult Day Care	225,070	246,999
Child Care		
Depreciation Expense	3,017	1,147

MEDICAL CARE FACILITY ISABELLA COUNTY

COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

CONTINE TEARO ENDED OF TEMBER 30, 2007	AND 2000	Schedule 1
	2007	2006
OPERATING EXPENSES (CONTINUED)		
Miscellaneous		
Maintenance of Effort	\$ 231,	786 \$ 191,627
Refunds and Other	13,	270 4,798
Depreciation Expense		119 190
Total Miscellaneous	245,	175 196,615
TOTAL OPERATING EXPENSES	7,852,2	205 7,587,162
Operating Income (Loss) Before Depreciation - Building	335,8	363 (325,215)
Less Depreciation - Building	(251,4	(251,437)
OPERATING INCOME (LOSS)	84,4	26 (576,652)
NON-OPERATING REVENUE (EXPENSES)		
Interest Revenue	178,4	23 76,544
Property Tax Revenue	1,223,3	78 1,150,880
Rental Income		
Building	112,7	50 80,000
Other		
QAS Revenue	703,7	97 781,732
Provider Tax Expense	(373,8	•
Total Other	329,89	99 447,484
TOTAL NON-OPERATING REVENUE (EXPENSE)	1,844,45	1,754,908
OTHER FINANCING SOURCES (USES)		
Contributions from Saginaw Chippewa Indian Tribe	75,11	2 130,159
Private Donations	18,64	•
Construction Interest Expense	(295,35	
TOTAL OTHER FINANCING SOURCES (USES)	(201,59	7) (134,365)
NET INCOME (LOSS)	1,727,27	9 1,043,891
RETAINED EARNINGS - OCTOBER 1	6,838,21	<u>5,794,327</u>
RETAINED EARNINGS - SEPTEMBER 30	\$ 8,565,49	7 \$ 6,838,218

MEDICAL CARE FACILITY ISABELLA COUNTY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED SEPTEMBER 30, 2007

Schedule 2

		Balance 9/30/06	_A	dditions	De	ductions		Balance 9/30/07
Patient Agency Fund ASSETS Cash and Investments	<u>\$</u>	1,375	\$	3,637	<u>\$</u>	2,326	<u>\$</u>	2,686
LIABILITIES Due To Patients Due To Medical Care Facility Operating	\$	633 742	\$	52 3,585	\$	468 1,858	\$	217 2,469
TOTAL LIABILITIES	\$	1,375	\$_	3,637	\$	2,326	\$	2,686

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

February 6, 2008

Department of Human Services Board Medical Care Facility Isabella County, Michigan

We have audited the financial statements of Medical Care Facility, Isabella County, as of and for the year ended September 30, 2007, and have issued our report thereon dated February 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we consider Medical Care Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Care Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Care Facility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Medical Care Facility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Care Facility's financial statements that is more than inconsequential will not be prevented or detected by the Medical Care Facility's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as finding 2007-1 and 2007-2, to be significant deficiencies in internal control over financial reporting.

Department of Human Services Board Medical Care Facility Isabella County, Michigan

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Care Facility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider finding 2007-1 to be a material weakness.

Compliance and Other Matters

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As part of obtaining reasonable assurance about whether the Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the Facility, in our Audit Communication and Report of Comments and Recommendations, dated February 6, 2008.

Medical Care Facility's response to the findings identified in our audit is described in the schedule of findings and responses. We did not audit the Medical Care Facility's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MEDICAL CARE FACILITY ISABELLA COUNTY SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED SEPTEMBER 30, 2007

Finding 2007-01

Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria:

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Facility's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition:

As is the case with many smaller and medium-sized entities, the Facility has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Facility's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Facility's internal controls.

Cause:

This condition was caused by the Facility's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Facility to perform this task internally.

Effect:

As a result of this condition, the Facility lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation:

We considered this internal control deficiency in planning the scope of our audit procedures and believe that we have appropriately addressed the risk of any misstatements in the audited financial statements by specifically reviewing the financial data with management. Therefore, due to the relative cost to eliminate the internal control deficiency over financial reporting related to the risks involved, we do not recommend any actions to address the weakness at this time. However, we do recommend the management routinely review the internal controls in place to prepare financial reports to ensure accurate information is provided.

View of Responsible Officials:

The Facility has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Facility to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

MEDICAL CARE FACILITY ISABELLA COUNTY SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED SEPTEMBER 30, 2007

Finding 2007-2 Lack of Documentation of Log Receipts and Medicare Adjustments

Criteria: The Facility should establish and maintain proper documentation for all transactions

and adjustments.

Condition: It was noted during Log Receipt Testing that room and board receipts could not readily

be traced to recording in the general ledger due to the complexity of the Medicare

system adjustments that are made throughout the year.

Cause: This situation appears to be due to the complexity of the Medicare system adjustments

that are made throughout the year.

Effect: The facility is unable to efficiently provide transaction support that substantiates the

balances in accounts receivable and revenue accounts for a given period after time has passed. Considerable time must be incurred to complete any kind of verification

or reconciliation.

Recommendation: It is recommended that the Facility establish a mechanism to track the adjustments as

they occur in order to be able to readily justify the activity that is occurring.

View of Responsible The Facility will review the process and make a determination as to the most efficient Officials:

manner in which to track the contractual adjustments to Medicare.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

February 6, 2008

Department of Human Services Board of Directors Isabella County Medical Care Facility Mt. Pleasant, MI 48858

We have recently completed our audit of the financial statements of Isabella County Medical Care Facility for the year ended September 30, 2007. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

We conducted our audit of the financial statements of Isabella County Medical Care Facility in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Department of Human Services Board of Directors Isabella County Medical Care Facility Page 2 February 6, 2008

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have the following related to the above to report at this time:

Estimates

Management estimates that \$18,000 of the Inpatient receivable is uncollectible.

Management's estimates of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Audit Adjustments

A number of adjustments were made in the course of the audit work, these were summarized and listed with the management representations. Many of these adjustments were identified by the Facility's accounting staff and just made through that mechanism since trial balances had already been provided. Others were made as a matter of adjusting amounts for a proper presentation under GAAP.

Department of Human Services Board of Directors Isabella County Medical Care Facility Page 3 February 6, 2008

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/

In planning and performing our audit of the financial statements of the Medical Care Facility, for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundations of internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management overrides of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as we discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A Material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Significant Deficiencies and Material weaknesses were reporting in the Schedule of Findings and Responses contained in the Audited Financial Statement Document. Classification of those findings as significant deficiencies and/or Material weaknesses is addressed in our Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated February 6, 2008 (also in the financial statement document).

Other Matters

During our audit we became aware of matters that present an opportunity for strengthening internal controls and operating efficiency. The following paragraphs summarize our comment and suggestions regarding such matters.

Estimate of Uncollectible Accounts Receivable

It is recommended that the Facility establish a formal written policy for calculating the estimate of uncollectable accounts receivable. This would help to establish guidelines for the estimate to be made and to assure that the policy established by management is consistently applied. The criteria to establish the amount should be clearly stated as well as the evaluation period and timing of adjustments to be made.

Department of Human Services Board of Directors Isabella County Medical Care Facility Page 4 February 6, 2008

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/EFFICIENCY (Continued)

Capitalization Policy

The Facility should establish a formal written capitalization policy. This would assist accounting staff in their evaluation of potential assets and assist in a consistent application of useful lives and depreciation methods. At a minimum criteria should be outlined for determining the threshold of capitalization, reference of useful lives, methods of depreciation, recording in the accounting records, process for asset disposal etc.

SUMMARY

We would like to thank the Isabella County Medical Care Facility personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Facility's Board, management, the State of Michigan, and Isabella County, and is not intended to be and should not be used by anyone other than these specified parties.

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